SECTION IV--JOURNALS AND LEDGERS

JOURNALS AND LEDGERS

Every municipality should maintain a cash receipts journal, a warrant register, a general journal and a general ledger.

Records generated by the computer should at least be prepared and printed for the books of original entry, the books of final entry and the financial statements. The use of the computer usually allows a magnitude of reports to be printed. However, only the required records and other management type reports need to be printed or saved. For internal control purposes, computer reports should be filed by report type. Filing by report allows for the control of consecutive numbers such as receipt numbers.

Cash Receipts Journal:

The cash receipts journal is a book of original entry in which all receipts are listed numerically. A duplicate receipt is issued by the city auditor or finance officer each time a transaction transpires in which the municipality receives money. A column is set up for each fund administered in which resources are receipted. The receipt should be coded as to the fund(s), general ledger account(s) or revenue classification affected. The receipts are spread upon the cash receipts journal to the appropriate column(s), coded by revenue classification and totaled. These totals are posted monthly to the general ledger by a debit to cash and a credit to the appropriate receivable, investment or the revenue control account. The revenue classifications are then recapped by revenue type and posted to the respective fund's revenue budget record for budgeted funds.

In a computer environment, receipts should be entered into the computer system during the month. The computer should be programmed to distribute the receipt activity to the proper revenue or general ledger accounts on a monthly and year-to-date basis. At the end of the month, the various revenue reports should be printed. Before the reports are filed, corresponding amounts on the different reports should be compared to detect any posting errors. Some municipalities test for errors on computer reports by footing receipt documents and comparing the totals with computer monthly or batch totals.

A sample receipt journal format is shown as Illustration 1.

Warrant Register:

The warrant register is used to record all warrants issued by the municipality. The warrant register should show the date of the warrant, to whom paid, the warrant number, the amount of the warrant and the account or accounts to be charged. Warrants should be listed chronologically in numerical order.

The warrant journal should be totaled at the end of each month, recapped and posted to the general ledger and subsidiary records.

In a computer environment, warrants should be entered into the computer system during the month. The computer should be programmed to distribute the disbursement activity to the proper expenditure or general ledger accounts on a monthly and year-to-date basis. At the end of the month, the various revenue reports should be printed. Before the reports are filed,

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corresponding amounts on the different reports should be compared to detect any posting errors.

Illustration 2 is an example in which a warrant register might be prepared and works on the same principle for warrants as Illustration 1 did for receipts.

Registered Warrant Register:

The treasurer shall keep a registered warrant register which shall show the number, date and amount of each warrant presented, the particular fund upon which the same is drawn, the date of presentation, the name and address of the person in whose name the same is registered, the date of payment when made, the amount of interest and the total amount paid thereon, with the date when notice to the person in whose name such warrant is registered is mailed. (SDCL 9-23-8)

An example of a registered warrant register is shown as Illustration 3.

General Journal

The general journal is used to record noncash transactions. In other words, any transaction that does not include the issuance of a receipt or a warrant should be recorded in the general journal. Examples of this type of transaction might include opening entries, interfund transfers of resources, investment transactions and adjusting and closing entries. These journal entries are individually posted to the general ledger as they occur. The general journal should show the date of the journal entry, the name of the funds and accounts to be credited, the fund and account numbers, and the amount of the debit and credit to each fund and account. Each general journal entry should be numbered and followed by an explanation of the reason for the entry.

A sample general journal page is shown as Illustration 4.

Payroll Journal (Optional):

Accurate payroll information is necessary to determine operating expenditures and to report earnings to employees, federal and state agencies. One means of obtaining easy access to this information is to use a "Special" payroll journal. This journal facilitates the recording of all payroll transactions in one place and saves time in recording and in posting. The sample journal shown as Illustration 5 may be used by municipalities who do not have their payroll on an automated system.

Those municipalities who are currently using the warrant journal to issue payroll checks may want to consider this option to simplify the recapping and posting procedures.

A sample payroll journal format is shown as Illustration 5.

General Ledger:

When transactions are recorded in the books of original entry (journals) each item of the transaction is coded with a specific account number. It would be quite cumbersome to post each of these transactions individually to a monthly or annual financial report. The purpose of the journal is to record the individual transactions, summarize each account number into a

monthly total and post this total to an account. An account is a form of record used to record the summary of all coded transactions affecting that account number. For example, all cash receipts and cash disbursements affect the "Cash" account. Accounts are set up for the various assets, liabilities, equity, revenues and expenditures related to a specific fund. This group of related accounts is referred to as a "Ledger." The ledger contains the summary of the total of transactions to date that affect that particular group of accounts. Once the ledger has been totally posted and closed out its main purpose is to facilitate the completion of the year-end financial reports.

Within the general ledger there are control accounts (i.e., revenues and expenditures). These accounts contain the summary of all revenues and expenditures against that fund to date. The detail for the revenues is kept in a subsidiary ledger known as the "Revenue Budget Record" and the expenditure detail is kept in a subsidiary ledger known as the "Expenditure Budget Record." At any point in the time the control account in the general ledger must equal the total of the detail in these subsidiary ledgers.

A general ledger should be established for each fund. A sample general ledger format is shown as Illustration 6.

Purchase Order Journal (Optional):

The purchase order journal is a special journal in which all issued purchase orders are numerically listed. This journal provides control over the appropriation amounts for each activity as they relate to the purchases function. The purchase order journal should be used in conjunction with formal purchasing procedure policies established within each county.

The control the purchase order journal provides over the purchase function is accomplished by charging the appropriations for the outstanding purchase orders. For example, the city auditor/finance office was authorized a $2,000 appropriation for supplies; to date $1,700 worth of expenditures have been charged against the appropriation. In addition to the actual expenditures the municipality has issued purchase orders in the amount of $250 as evidenced by the open items in the purchase order journal. These outstanding purchase orders are charged against the budget item as encumbrances, thus reducing the budget balance to $50 rather than showing an unexpended balance of $300. This method of recording charges against the budget may avoid an overexpenditure of the particular budget item.

To properly maintain this record the first step is to record all issued purchase orders numerically, showing vendor, amount, fund, activity and object to be charged. As invoices and vouchers are received against the related purchase orders, the voucher number and date of the voucher are recorded in the purchase order journal. By listing the voucher number, the unrecorded encumbrance is automatically cancelled. However, this automatic cancellation only applies to current month's outstanding purchase orders as they have not yet been posted in the ledgers.

At the end of the first month all outstanding or open items in the purchase order journal are recapped by fund, activity and object and are posted to the appropriate fund's general ledger accounts "Encumbrances" and "Reserve for Encumbrances." The activity and object codes are posted to the appropriate fund's expenditure budget record as charges against the appropriation.

In the subsequent months the purchase orders are again listed and recapped in the same manner; however, any vouchers issued against the prior month's outstanding purchase order

will require an adjusting general journal entry against the encumbrance account and the reserve for encumbrances accounts in the appropriate fund's general ledger. An adjustment must also be made in the appropriate expenditure budget record to reverse the encumbrance of the budget item which is now charged as an expenditure.